INTERIM STUDY COMMITTEE ON ECONOMIC DEVELOPMENT ISSUES

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MEETING MINUTES[1]

Meeting Date: September 14, 1999
Meeting Time: 10:00 A.M.
Meeting Place: State House, 200 W. Washington St., Room 128
Meeting City: Indianapolis, Indiana
Meeting Number: 3

Members Present: Sen. Becky Skillman, Chairperson; Sen. Teresa Lubbers; Sen. Allen Paul; Sen. Mark Blade; Sen. Earline Rogers; Sen. Larry Lutz; Rep. Robert Kuzman; Rep. John Frenz; Rep. Robert Cherry; Rep. David Yount.

Members Absent: Rep. David Crooks; Rep. Jack Lutz.

Senator Becky Skillman, the chair of the Committee, called the Committee to order at 10:00 A.M. After the introduction of Committee members and staff, the minutes from the previous meeting were approved by consent.

I. Enterprise Zone \ Renaissance Zone Issues

Senator Skillman then recognized Senator David Long. Senator Long began by noting that in his experience as a member of the Ft. Wayne City Council and as a member of the

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board overseeing Ft. Wayne's enterprise zone, he had observed the effectiveness of enterprise zones. He stated that there were a number of factors that limit the effectiveness of enterprise zones, such as: (1) size limits and contiguity requirements; (2) a lack of flexibility; and (3) the fact that the tax incentives have focused on inventory taxes.

Senator Long stated that he had met with officials from the Michigan Department of Commerce to discuss the functioning of Michigan's "renaissance zones." He explained that these zones were designed by Michigan to deal with many of the same issues that enterprise zones in Indiana address. He then described the provisions of a bill that he and Senator Washington had previously introduced: (1) the bill would have allowed up to eleven renaissance zones, two of which could be abandoned military bases; (2) the zones could be up to 3,000 acres in size; (3) the zones would have a maximum life of fifteen years; (4) each zone could have up to six "sub-zones," which would have to be contiguous; (5) the tax benefits would be available for families and individuals, as well as for business; and (6) all property taxes and income taxes would be abated, with the abatement phasing out over fifteen years.

Senator Long stated that it is an appropriate time to revamp the enterprise zone program, because: (1) the recently enacted inventory tax credit has made the tax incentives behind enterprise zones relatively less important; and (2) changes to enterprise zones that would encourage investment in urban areas, rather than suburban areas, would assist in achieving "smart growth."

Senator Skillman asked Senator Long why his bill would have allowed only eleven renaissance zones to be established. Senator Long answered that his bill was modeled on the program that Michigan had enacted, but that there was no reason why the number of zones could not be expanded. He noted that Michigan has recently expanded the number of its renaissance zones. Representative John Frenz questioned Senator Long concerning whether a renaissance zone would hurt the competitiveness of existing business when the zone is created. Senator Long responded that under his proposal, existing businesses would also be eligible for zone incentives. Senator Larry Lutz asked Senator Long how the creation of renaissance zones had affected schools in Michigan. Senator Long replied that in many of the zones there had been little tax base when the zones were established, but that new growth had increased the tax base. Representative Robert Kuzman inquired if Senator Long's proposal included provisions prohibiting companies from leaving a zone after accepting the tax incentives. Senator Long noted that his proposal did include such a "claw-back" provision. Senator Mark Blade requested Senator Long to provide the Committee with additional information on Michigan's renaissance zone program.

Senator Skillman then recognized Ms. Beth Neu, the Director of Economic Development for the City of Ft. Wayne. Ms. Neu stated that the enterprise zone in Ft. Wayne was first established in 1983, and that it was in its last renewal period. She noted that in 1983 the unemployment in the zone was 40% (with a city-wide unemployment rate of 13%), compared with the current unemployment rate of 6.5% in the zone (and less than 3% city-wide). Ms. Neu also said that much of the increase in the enterprise zone's personal property assessed valuation would not have occurred without the incentives offered by the zone. Ms. Neu then briefly described the improvements to the capital stock (such as sidewalks and streetlights) that had been funded by assessments paid to the zone association.

She commented that the enterprise zone's successes were due to: (1) a strong national economy; (2) training programs offered in the zone; and (3) investment in physical improvements to zone neighborhoods. She then stated that: (1) there is a need for a state-wide policy on re-investment in older urban areas; and (2) because of the effect of the reduction in inventory taxes, new incentives must be designed for enterprise zones.

Senator Skillman then recognized Mr. Dennis Carson, President of the Indiana Enterprise Zone Association ("IEZA"). Mr. Carson began by stating that the IEZA was willing to work with all parties in order to enhance the enterprise zone program. He then briefly discussed the following issues: (1) the need for an amendment clarifying that taxpayers that claim the enterprise zone loan interest credit must re-invest in the enterprise zone; (2) enhancing enterprise zone job credits; and (3) the likelihood that the reduction in the inventory tax will affect enterprise zone redevelopment efforts.

Senator Earline Rogers asked Mr. Carson if some of the concepts used in Michigan's renaissance zones would be appropriate for Indiana's enterprise zones. Mr. Carson responded that the stronger tax incentives would be useful. Mr. Carson also commented that the original intent of enterprise zones was to help geographic areas, and not just certain types of businesses within a zone. Representative Kuzman asked Mr. Carson about other possible zone tax incentives, and Mr. Carson discussed the proposed sales tax exemptions for zone benefits that had been introduced during the past session of the General Assembly.

Senator Skillman next called on Ms. Courtney Tobin, Counsel for the Indiana Department of Commerce. Ms. Tobin began by stating that the enterprise zone program has made strong accomplishments since its inception, but that the economy has changed since the creation of the program.

Ms. Tobin stated that many enterprise zone successes have come from creative programs, such as job training or day-care programs, that are funded by the urban enterprise associations. She commented that it may be better to modify the enterprise zone program instead of layering a new program on top of the existing enterprise zones. Ms. Tobin briefly described a "broad agency announcement" that will be issued to request proposals for an evaluation of Indiana's enterprise zone program. (Ms. Tobin distributed a number of handouts to the Committee. For a copy of this material, please contact the Legislative Information Center.)

II. Twenty-First Century Research and Technology Fund

Senator Skillman then recognized Mr. Mike Gery, Executive Assistant to the Governor, for a discussion of the Twenty-First Century Research and Technology Fund. Mr. Gery began by describing some of the reasons why the act establishing the Fund had been passed by the General Assembly and signed by the Governor: (1) discussions among parties interested in innovations in biomedical industries; (2) support from the Governor and the Lt. Governor; (3) studies showing that Indiana was losing many of its college graduates; (4) the fact that Indiana's universities were losing out in the competition for federal research grant money because of the relatively small amount of state matching funds. Mr. Gery noted that the National Institutes of Health award approximately $15 billion annually in grants.

Mr. Gery then cited the goals of the Fund, explaining that it was created to provide grants or loans to support proposals for economic development in the following areas: (1) to increase the capacity of Indiana institutions of higher education, Indiana businesses, and Indiana nonprofit corporations and organizations to compete successfully for federal or private research and development funding; (2) to stimulate the transfer of research and technology into marketable products; (3) to assist with diversifying Indiana's economy by focusing investment in biomedical research and biotechnology, information technology, and other high technology industry clusters requiring high skill, high wage employees; and

(4) to encourage an environment of innovation and cooperation among universities and businesses to promote research activity.

Mr. Gery also described the statutory provisions requiring the Fund to give priority to applications for grants or loans that: (1) have the greatest economic development potential; and (2) require the lowest ratio of money from the fund compared with the combined financial commitments of the applicant and those cooperating on the project. He noted that the board overseeing the Fund will give priority to those universities that form partnerships with other universities or private sector firms.

He then briefly described the members who had been appointed by Governor O'Bannon to the Twenty-First Century Research and Technology Fund Board. He stated that the Board is currently seeking letters of intent from those who are planning to apply for funding from the Fund. Mr. Gery explained that these letters of intent will give the Board an idea of what types of applications it will eventually receive.

Senator Skillman asked Mr. Gery when the initial funding will be awarded. Mr. Gery stated that the application process would continue until November 1, and then peer review of the proposed projects would begin (including federal peer review, if required). He commented that the Board is currently determining what types of peer review would be appropriate. He stated that he hoped that the initial awards would be made by the spring of 2000, but that the timing ultimately depends on peer review requirements. Senator Rogers commented that it is important to publicize the availability of this funding source, and she added that it is also important to ensure that all interested persons have easy access to the application process. Mr. Gery explained that the Fund: (1) has created an Internet site; (2) will use universities to disseminate information; and (3) is planning to reach out to business groups. Mr. Gery also distributed a document, prepared by a member of the Twenty-First Century Research and Technology Fund Board, describing the steps that must be undertaken in turning research into a new product. (For a copy of this material, please contact the Legislative Information Center.)

III. Tax Increment Finance \ Property Tax Abatement Issues

Senator Skillman then recognized Dean Mark Rosentraub of the Indiana University School of Public and Environmental Affairs to speak on tax increment financing issues ("TIF"). Dean Rosentraub began by noting that Indiana is a pioneering state in the scope and scale of its use of tax increment financing. He stated that there is evidence showing that, when tax increment financing is used, property values also tend to increase outside of tax increment financing areas.

Dean Rosentraub briefly described how tax increment financing has been used in Indianapolis to raise $76.4 million for the Circle Centre Mall. He explained that some of the tax burden in Center Township of Marion County had been shifted to taxpayers owning or using property outside of the tax increment financing area. Dean Rosentraub then discussed the issue of who benefits from tax increment financing redevelopment, stating that while tax burdens had been shifted to Center Township taxpayers who are outside of the TIF area, taxpayers outside of Center Township receive an indirect benefit without bearing an additional burden.

He suggested two options that would possibly help remedy what he described as a mismatch between benefits and responsibilities under tax increment financing: (1) if the TIF area performs better than expected, allow affected units of local government to have a role in deciding what to do with the additional money; and (2) the burden-shifting could be shared throughout a county, and not just in certain affected local units or school corporations.

Sen. Skillman then called on Mr. David Bottorff of the Association of Indiana Counties. Mr. Bottorff briefly described the procedures that counties must follow to implement tax increment financing, and he provided Committee members with examples of various TIF-related resolutions adopted by county redevelopment commissions. Mr. Bottorff also provided Committee members with a copy of the guidelines that Tippecanoe County has adopted for use in evaluating whether a property tax abatement should be granted. (Mr. Bottorff distributed a number of handouts to the Committee. For a copy of this material, please contact the Legislative Information Center.)

Mr. Bottorff commented that he believes tax increment financing and property tax abatements are very useful economic development tools. He did note that the use of tax increment financing creates more work for county auditors. Mr. Bottorff also stated that it would be helpful if counties were given additional economic development tools to help them retain businesses, and he described a bill from the past session of the General Assembly that would have expanded the EDGE credit for that purpose.

In response to questions from Senator Skillman and Senator Rogers, Mr. Bottorff commented that in some jurisdictions there may be a mismatch between burdens and benefits from tax increment financing. He suggested that the issue should be examined in more detail.

Senator Skillman then recognized Mr. Doug England, Mayor of New Albany. Mayor England stated that the City of New Albany had established five tax increment finance areas to help pay for infrastructure improvements that were necessary to attract new investment. He commented that the City would rather not have to use such tools, but that it was necessary in order to compete successfully with locations in other states.

Representative Kuzman asked Mayor England whether school districts should be involved in the tax increment financing or property tax abatement process. Mayor England responded that the City has good working relations with the local schools, and that there has been very little resistance from schools to tax increment financing and property tax abatement. In response to another question from Representative Kuzman, Mayor England stated that no companies have located in New Albany because of property tax abatement and then subsequently relocated after the abatement expired.

Senator Skillman then called on Mr. John Fernandez, Mayor of Bloomington. Mayor Fernandez began by stating that it is still urgent to engage in economic development programs, even with a generally strong economy. He commented that successful economic development is attributable to partnerships between the state and local communities.

Mayor Fernandez then described the efforts to keep General Electric from relocating jobs from Bloomington to Mexico. He stated that the plant pays $50 million in annual salaries, and that it draws employees from 26 Indiana counties. Mayor Fernandez also described the jobs lost in 1998 when Thompson Consumer Electronics moved its television assembly plant operations from Bloomington to Mexico. He noted that to deal with the intense international competition for jobs, municipalities and counties have only tax increment financing and property tax abatement to use as economic development tools. Mayor Fernandez stated that Bloomington is creating new jobs and attracting new investment, partly because of its tax increment financing and property tax abatement programs. He also noted that Bloomington is using tax increment financing to fund transportation, and it will be used to help build a new fire station to support development.

Mayor Fernandez also commented that he wished property tax abatements were referred to with different terminology, because the "abatement" is really a phasing-in of new property taxes and not an abatement of existing taxes. In addition, he suggested that local units should be allowed to provide property tax abatements for research and development equipment. According to Mayor Fernandez, this would help adjust the property tax abatement program to the new economy.

Senator Skillman then recognized Mr. Craig Berndt, the Planning, Development, and Redevelopment Director of the City of Huntingburg. Mr. Berndt explained that Huntingburg has a population of approximately 6,000 and that it has slow growth in its assessed valuation. He stated that with such a small population and such slow growth, tax increment financing and property tax abatement are essential to: (1) stay competitive with other jurisdictions in retaining or attracting jobs; and (2) expanding services to new areas.

Mr. Berndt stated that Huntingburg is conservative in its use of tax increment financing and property tax abatement, but that they have been used for such things as: (1) retaining jobs when a multi-state corporation consolidated its operations; (2) creating an industrial park; and (3) addressing housing shortages by assisting the housing construction industry.

Mr. Berndt stated that the local control over the tax increment financing and property tax abatement programs should not be reduced. Representative Kuzman asked if some of the local financing problems could be solved by eliminating the property tax levy limits. Mr. Berndt answered that doing so would make it easier to finance economic development projects, but that it might not be acceptable to taxpayers. In response to a question from Representative Cherry, Mr. Berndt stated that: (1) the local schools have not made negative comments concerning tax increment financing and property tax abatements; and (2) Huntingburg has used tax increment financing to construct infrastructure projects near schools.

Senator Skillman next recognized Mr. Harold Gutzwiller, the Economic Development Director of the Town of Mooresville and a member of the Board of Directors of the Indiana Economic Development Association ("IEDA"). Mr. Gutzwiller briefly described the IEDA and its objectives, and he then stated that: (1) it is critical to keep economic development issues in the forefront, even during good economic times; and (2) economic development programs and initiatives must be considered in the context of other issues, such as tax reform, education reform, and workforce initiatives.

Mr. Gutzwiller then made the following comments concerning property tax abatement: (1) the IEDA supports the current schedule for real and personal property tax abatement; and (2) the IEDA supports making research and development equipment eligible for property tax abatement. He noted that in some communities, abatements are the only local incentives available to existing businesses, and that while new business attraction often makes the headlines, most new jobs are created by existing businesses.

Mr. Gutzwiller also described the Twenty-First Century Research and Technology Fund as a great start in moving Indiana to the forefront of new technologies. (For a written copy of Mr. Gutzwiller's testimony, please contact the Legislative Information Center.)

Senator Skillman then called on Mr. Jesse Moore of the Indiana Chamber of Commerce. Mr. Moore stated that the Chamber of Commerce supported the continuation of property tax abatement and tax increment financing, and he said that local government in Indiana must have these tools to compete for jobs. Mr. Moore noted that approximately $70 million of local property taxes are abated each year.

Representative Frenz commented that testimony had described the negative effects that the recent reduction in inventory property taxes is having on enterprise zones. He questioned Mr. Moore concerning the economic development consequences of further reducing property taxes. Mr. Moore stated that decreases in property taxes would have a negative impact on the usefulness of enterprise zones and property tax abatements, but that the general benefits from a low-tax environment would have an even greater positive impact on economic development.

IV. Insurance Issues

Senator Skillman next recognized Mr. Jason Shelley of the Insurance Institute of Indiana. Mr. Shelley stated that the insurance industry directly employs over 62,000 people in Indiana, with an average salary of $38,000.

Mr. Shelley explained that Indiana's insurance premium tax rate is 2%, and that by 2003 this will be higher than the highest premium tax rate of any surrounding state. He stated that the Insurance Institute of Indiana was recommending a decrease in the rate from 2% to 1.3%, phased in over a five year period. Mr. Shelley commented that this rate reduction will make Indiana's insurance companies competitive and help retain those companies in the state. (Mr. Shelley distributed a number of handouts to the Committee. For a copy of this material, please contact the Legislative Information Center.)

Senator Skillman stated that the next meeting of the Committee would be held at 10:00 A.M. on October 5 in the State House, and that this meeting would be devoted to gaming issues. Senator Skillman explained that the Committee would not be taking a vote on any specific gaming legislation, but that it would consider any proposed findings of fact or recommendations. She noted that the Indiana Gambling Impact Study Commission has had a series of meetings to examine gaming issues, and that it hopes to issue its report by December 1 of this year. Senator Rogers commented that she believes it is unfair for the Committee to treat gambling differently from other economic development issues, and that the Committee should endorse proposed gaming legislation if it could reach a consensus. Senator Skillman stated that she believes it is not appropriate for the Committee to vote on specific gaming legislation before the Indiana Gambling Impact Study Commission has issued its report.

Senator Skillman then thanked the witnesses for appearing before the Committee. There being no further business, she adjourned the meeting.